Memorandum

ARUP

To	Kevin Cronin, PDC	Date	December 26, 2013
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Subject	Updated Infrastructure Funding and Financing Considerations		

Summary

PDC asked the FLIP consultant team to explore alternative financing mechanisms to tax increment financing (TIF) that could help support the economic development of the industrial lands in the eastern part of the study area. We conducted a scan of local and national examples of financing mechanisms that may be applicable and be worth further exploration. A summary of our findings is provided in Table 1 below. The purpose and need of this memo, along with details of our findings and next steps follow below.

Table 1. Summary of Potential Alternative Financing Mechanisms Applicable to FLIP

Alternative Financing Mechanism	National Example	Local Example	How it Works	Applicability to FLIP
Special Assessment District	*Community Improvement District, Kansas*	*Local Improvement District, Oregon*	Allows a tax assessment to fund district improvements; only those who benefit pay assessment; can fund non-revenue-generating projects or be bonded against by municipality.	Could fund property purchases in floodplain, flood mitigation projects, street paving.
Infrastructure Finance District (IFD)	*Rincon Hill Pilot IFD, San Francisco, CA*	*n/a*	Like Tax Increment Financing but no blight declaration is required and only a portion of increment is used; may cover contiguous geographic area or only selected parcels; two-thirds of impacted property owners must vote in favor of a proposed IFD.	Could fund property purchases in floodplain, flood mitigation projects, street paving.
Community Development Corporation (CDC)	*Dudley Street Neighborhood Initiative (DSNI), Boston, MA*	*ROSE CDC, Portland OR*	Non-profit organizations offering programs/services to support a particular community such as affordable housing; typically formed by residents; scale and scope varies widely; not a funding tool unto themselves; can serve as vehicle for funding, financing projects, assisting with financial assistance to community members.	After urban renewal district is retired could provide project coordination services. Could be put in charge of floodplain property purchases and restoration.
Gainshare Program	*Not researched.*	*Strategic Investment Program (SIP)*	The SIP exempts a portion of large capital investments from property taxes (which effectively works like a tax abatement) that create jobs; Gainshare rebates back to the municipality/county a portion of state income taxes generated by the new employment.	Could encourage investment by large employer to build a facility on Foster Rd.

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Purpose and Need

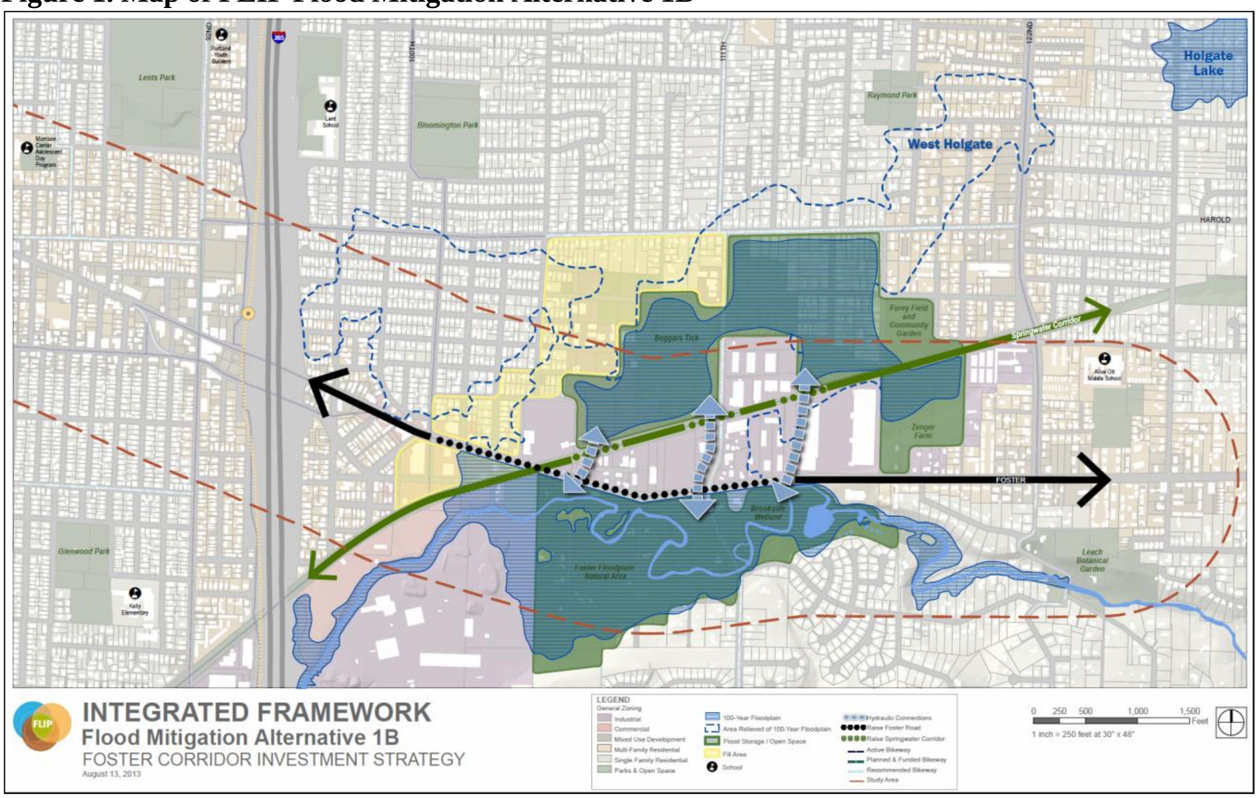
Preventing future flooding of Johnson Creek is the key to unlocking economic development value of industrial lands in the eastern part of the study area. As demonstrated in the FLIP Foster Road Flood Mitigation Strategy (provided under separate cover), improvements envisioned by Alternative 1B[1] could yield the following economic benefits (assuming new industrial development occurs afterwards) at a project cost of $61 million (which is comprised of $27 million in net acquisition costs and $34 million in infrastructure costs, including raising Foster Road):

- $108M potential uplift in property values
- $1.3M annual savings flood insurance costs
- 540 new jobs and $25M in new wages annually
- $739,000 in new property taxes annually

The PDC would typically be able to leverage the tax increment of the Lents Urban Renewal Area (URA) to finance this community improvement. However, the PDC bonding authorization for the Lents URA will sunset in 2020, which may not leave sufficient time for land acquisition.

Therefore, the FLIP bureau partners asked the consultant team to identify alternative mechanisms and organizational structures for further study that would lead to a funding strategy to implement the Alternative 1B (or other finalized option) improvements.

Figure 1. Map of FLIP Flood Mitigation Alternative 1B



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[1] Alternative 1B major improvements include: raising Foster Road and the Springwater Corridor, land acquisition, and floodplain restoration

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Findings

Two kinds of major investment are required:

- Purchasing of personal property to create the space for floodplains
- Infrastructure improvements (i.e., Foster Rd. reconstruction, flood plain creation)

Purchasing personal property for a public good cannot not be funded by the private sector since there are many different property owners and the economic benefits to any individual property, if any, will not accrue equally. Funding and implementation will need to be led by the public sector since a privately-initiated floodplain restoration would take many decades to implement through many small transactions over time. It may require a longer process whereby one or more Bureaus assemble city, county, state, and Federal grants and other sources of funds to purchase the property, or a new assessment district is established.

The formation of a new special assessment district to pay for the property acquisition and infrastructure improvements is an alternative worth considering if the Lents URA cannot be utilized. We included a discussion of some models at the end of this memo, including Local Improvement Districts (LIDs) which are already in use in Oregon. Some important considerations about the creation of a new assessment district:

- The district must be large enough to support a $61 million bond issue, which could be challenging given that many parts of the project area will be converted to permanent open space/floodplain.
- Assessment district bonds levy a fixed annual assessment, which means this approach may not be able to capture the anticipated increase in assessed value due to the removal of flood risk.
- Would require an entity that can issue tax-exempt bonds. This entity could be created if it does not currently exist. Examples of such entities include the Port of Portland, ROSE Community Development Corporation (CDC) (if borrowing powers are bestowed upon it), or another CDC or special district that could be formed especially for this purpose. Please see some discussion at the end of this memo regarding ROSE CDC and the Dudley Street CDC in Boston, which was bestowed redevelopment rights by the City of Boston.
- Establishment of a special assessment district is a process that will take time and require significant consultation with the affected community. We recommend discussing the formation process with a legal expert familiar with State and local laws.
- Please see discussion below about the State of Kansas Community Improvement District (CID) legislation, which enables the type of block or parcel-level redevelopment under consideration by FLIP. While State legislative action would be required in Oregon, it may be worth considering if there is sufficient need for such a program as it would make the creation and management of CIDs a much simpler and more flexible process at the local level.

One argument in favor of formation of a special assessment district is that Federal flood insurance subsidies, which cover roughly 50% of the cost of all flood insurance plans in the US, are going to disappear in approximately four years. While not a tax, this will effectively double the cost of flood insurance and increase the cost of home ownership in the 100-year floodplain. An assessment that will pay for work that will effectively remove the need for flood insurance altogether may be a strong argument for district formation. As mentioned earlier, preliminary estimates are that flood insurance savings in the affected areas would be approximately $1.3 million per year.

The infrastructure improvements should be the focus of a public private partnership approach that unlocks the potential of the industrial lands along Foster Road. and the Springwater Corridor. A private firm, such as a manufacturer, may be willing to pay for the Foster Road. improvements and floodplain creation (i.e., installation of connection pipes, habitat restoration) in return for subsidies such as below market rate land price, future tax rebates or abatements, City matching funds, and/or some form of guarantee by the municipality to refund the investment costs. Some incentive concepts worth investigating include:

- Create a single parcel or multi-parcel special improvement district where the tax increment from the increased assessment value is rebated to the property owner(s) over a 10-15 year period as a back-end payment for their up-front improvements. Such a program functions much like an Enterprise Zone and was considered by the City of Wilsonville, but has not yet been implemented anywhere in Oregon.
- Consider a Gainshare program through the Strategic Investment Program (SIP) that exempts a portion of large capital investments from property taxes (which effectively works like a tax abatement) that create jobs. Washington County has used this program to attract and expand companies like Intel and Genentech. The property taxes lost due to the property tax exemption are rebated in part back to the jurisdiction by gains in state income taxes generated by the new employment. There is a minimum threshold of $100 million for sites inside urban growth boundaries, so the facility construction costs would need to be significant to be eligible. Also, 25% of the annual tax savings are paid to local service providers as a Community Service Fee. More at: http://www.oregon4biz.com/assets/docs/sip.pdf
- PDC or another public entity could demonstrate its commitment to unlocking this site by buying the industrial lands in the near term (e.g., before the improvements are made), thereby gaining control of the lands and creating some flexibility for developer negotiations; this could be done outright, as a land swap for other parcels, or by some other method. The ability to consolidate parcels will help attract a larger manufacturer and could simplify the tax assessment schemes mentioned above.
- Offering the land at a below market rate or for free is an effective form of upfront subsidy that may be less cumbersome than some the alternatives suggested above and should be considered. This option would only be available if PDC or another public entity took control of the industrial lands.
- Also worthwhile, in conjunction with the above, would be a concerted attraction effort by Greater Portland Inc. or another economic development organization to market the site, develop incentive package(s), and explore possible deal structure alternatives.

Suggested Next Steps

- Continue to refine options for flood mitigation and establish a preferred alternative through consensus with City and regional partners.
- Establish what amount of funding is currently available from each Bureau through capital improvement plans or other planned expenditures that could reduce the amount that would need to be financed. Also identify potential sources of grant funding for the project and identify lead agencies to apply for and secure the grants.
- Confirm tax increment capacity in the existing URA and determine if politically and economically feasible to extend the life of the district. Also explore the feasibility of establishing a new assessment district such as an LID.
- Examine the percentage of property owners who have flood insurance, how much they pay, and what kind of premiums they may be facing to get a better handle on the potential avoided costs.
- Investigate proposed public-private partnership deal structures. What are the pros and cons of extending bonding authorization? Work with Greater Portland Inc. to identify and talk to potential private partners about incentives and deal structures that may be attractive. Find out what kind of capital investment they would be making to develop the site(s).
- Establish preliminary public funding commitments from City Bureaus through City Council Action. Commitments could be made contingent on the legal establishment of the preferred deal structure.
- Assemble a “Sources and Uses of Funding” table and explanation for Alternative 1B (or other). This will require a cost estimate with a 30% +/- contingency and a preliminary schedule.

- Present findings to the Foster-Lents community and provide information regarding legal requirements (if any) to support the preferred approach (e.g., property acquisition, assessment district formation).
- Test viability of the preferred approach. Work with the land owners to determine generally acceptable terms and conditions for land acquisition and assessment of special taxes (if pursued).

Special Assessment Districts

These districts are essentially long-term payment plans for improved infrastructure and/or services in a certain geographic area. Property owners and/or businesses agree to pay a special assessment to fund specific improvements or services, including a wide range of infrastructure. Each participant must pay an assessment proportional to the benefit it receives. These districts are typically established through a majority vote of those impacted, and most types can use a pay-as-you-go model (using funds as they are received) or bond financing model (tax-exempt bonds backed by anticipated assessment revenue). They typically are not self-governed and are utilized by entities with municipal powers (e.g., counties, cities, municipal utilities and special districts).

These districts are known by many names and vary widely, including Local Improvement Districts, Community Benefits Districts, Community Improvement Districts, and many more. Unlike tax increment-based methods, these districts are based on a ‘special assessment’ that only impacts those who benefit, do not divert revenues from other municipal programs, can be used in both strong and weaker real estate markets, and can be used with non-revenue generating improvements. Typically, they require an affirmative petition in support from those impacted by the proposed district and must not receive formal objections from a majority of those affected (as measured by the assessment methodology). Compared to other financing tools, this tool is less risky for the municipality because some of the risk is transferred to individual property owners.

Specific Example(s):

- *Community Improvement District, Kansas*
  The Kansas Community Improvement District, or CID, allows a special assessment of property or sales tax in the district to finance the construction and some ongoing costs of a range of project types, including infrastructure and the cost to establish the program. The State of Kansas legislation enables cities to issue either special or general obligation bonds, which typically offer lower cost interest rates. The City of Wichita, Kansas, is using CIDs to collect additional assessments for both building rehabilitation and new commercial building construction. The districts tend to cover less than one block and allocate sales tax assessments over time, up to a maximum collection amount for each project. However, sales tax assessments are only one source of repayment funds. Special assessments and general obligation bonds are also allowable under the legislation.
  See: http://www.wichita.gov/Government/Departments/Economic/Pages/CID.aspx and http://www.barberemerson.com/pdfs/kansas-community-improvement-district-act.pdf
- *Local Improvement District, Oregon*
  The City of Portland currently offers a local improvement district (LID) program to assist property owners in improving streets to urban standards in parts of the city without improved streets. It can also be used to install green street features or other transportation infrastructure and could be expanded to address flood mitigation projects. This program has been used to pave many streets in the Lents area. Depending on the scope of the project, the project may be built by the City or by private contractors. An engineering report is prepared to identify the project cost and to allocate benefits to the affected property owners. The assessment methodology can be very flexible, with the ability to vary payments based on the square footage of a site, distance from the proposed improvement, and many other factors. Payments for the LID may be paid by the property owner in a lump sum or financed as a lien against the property over a term of 5, 10, or 20 years. It may also be possible to defer LID payments and leave them as a lien

on the property to be paid only at the time of a property transaction, thereby eliminating any short-term costs to the property owner. This would, however, likely affect the City's bonding structure since the City would need to guarantee bond payments in the interim.

Infrastructure Finance District (IFD)
This type of financing mechanism uses a tax assessment within a designated district, diverting the increment in property tax revenue over a base year to generate funds for infrastructure, either directly or through the sale of bonds. In this way, the IFD is much like *tax increment financing (TIF)*, but it does not require a *blight* declaration to be used. An IFD may cover a contiguous geographic area, or may cover only selected parcels, and funds may be used to pay for public improvements capital projects such as highways, transit, water and sewer systems, flood control, and community facilities like parks and libraries. To be used, two-thirds of impacted property owners must vote in favor of a proposed IFD. Each district has a maximum assessment period, up to X years. In California, where redevelopment tools like TIF are no longer available, IFDs are an alternative for communities to finance necessary improvements and facilities based on the value of new development. Oregon law does not currently have a provision for IFDs; legislative action is likely to be necessary to make this tool possible.

Specific Example:

- *Rincon Hill Pilot IFD, San Francisco, CA*
  The Rincon Hill project uses an IFD in conjunction with developer impact fees to pay for the construction of several new community parks and the redesign of several streets in a fast-growing neighborhood in San Francisco. The IFD diverts a portion of the growth in general fund tax revenue for selected properties in the district, but does not impact education funding. The IFD funding allowed the 'complete community' improvements without placing the entire financial burden in upfront costs to project developers.
  See: http://www.sf-planning.org/ftp/files/Citywide/Draft_Rincon_Hill%20 IFD_Infrastructure_Financing_Plan_Dec_2010.pdf

Community Development Corporation (CDC)
CDCs are non-profit organizations that typically offer programs and services intended to support a particular community. They frequently engage in providing affordable housing, workforce training, social services, and community organizing in a neighborhood or for a specific population. They often serve as advocates based in low-income communities. While not a funding tool unto themselves, they can serve as the long-term "champion" with the legal and organizational capacity to implement projects in Lents after the urban renewal district is retired. An option to consider after the urban renewal district is retired is for a CDC to step in and provide project coordination services, write grants and secure funding, conduct outreach to property and business owners, and provide other necessary services. The scale and scope of work conducted by CDCs varies widely, from real estate development and management to education and community planning. These organizations are typically formed by residents and led by board members, and they often partner with numerous funders to support their programs. The CDC may, in turn, offer a variety of financial assistance to community members, including financing and equity investments. CDCs exist in many capacities around the United States, each with its own set of priorities and membership, based on the local conditions and community.

Specific Example:

- *Dudley Street Neighborhood Initiative (DSNI), Boston, MA*
  In one of Boston's poorest neighborhoods, the DSNI aimed to combat years of disinvestment and neglect through programs, services, and a proactive planning and redevelopment program. The DSNI

convinced the Boston Redevelopment Authority to delegate the power of eminent domain in the neighborhood to Dudley Neighbors, Inc., a community land trust established by the DSNI and functioning as a redevelopment corporation. It accomplished this through an effective organizing campaign, community planning and buy-in, and with the support of then-Mayor Ray Flynn. In the following years, enabled by both partnership and financial support from several foundations, the DSNI was able to acquire vacant parcels, build affordable housing, and offer 99-year ground leases on the property. The DSNI case represents perhaps the first time that eminent domain powers were delegated to a private corporation of this nature.
See: http://www.dsni.org/ and http://www.brunerfoundation.org/rba/pdfs/1995/04_dudley.PDF

- *ROSE CDC, Portland OR*
  ROSE CDC (Revitalizing Outer Southeast) is a long-standing CDC that is active in the Lents area. Originally focusing on providing affordable housing opportunities, ROSE now also provides economic development services and is a major partner with PDC in furthering the goals of the Lents Town Center Plan.

We would welcome further discussion about these options and an opportunity to help PDC investigate alternatives and structure a program that accomplishes the goals of the FLIP Project. Please let us know if you have any questions.